



# Investment Synopsis

Fourth Quarter 2014

Acacia Wealth Advisors is distributing the Investment Synopsis with permission from Rogerscasey, which retains the copyright. Rogerscasey provides consulting advice on asset allocation, investment strategy, manager searches, performance measurement and related issues. The information and opinions herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment Synopsis and the data and analysis herein is intended for general education only and not as investment advice. It is not intended for use as a basis for investment decisions, nor should it be construed as advice designed to meet the needs of any particular investor. Please contact Rogerscasey or another qualified investment professional for advice regarding the evaluation of any specific information, opinion, advice or other content. Of course, on all matters involving legal interpretations and regulatory issues, investors should consult legal counsel.

Copyright © 2015 by The Segal Group, Inc. All rights reserved.

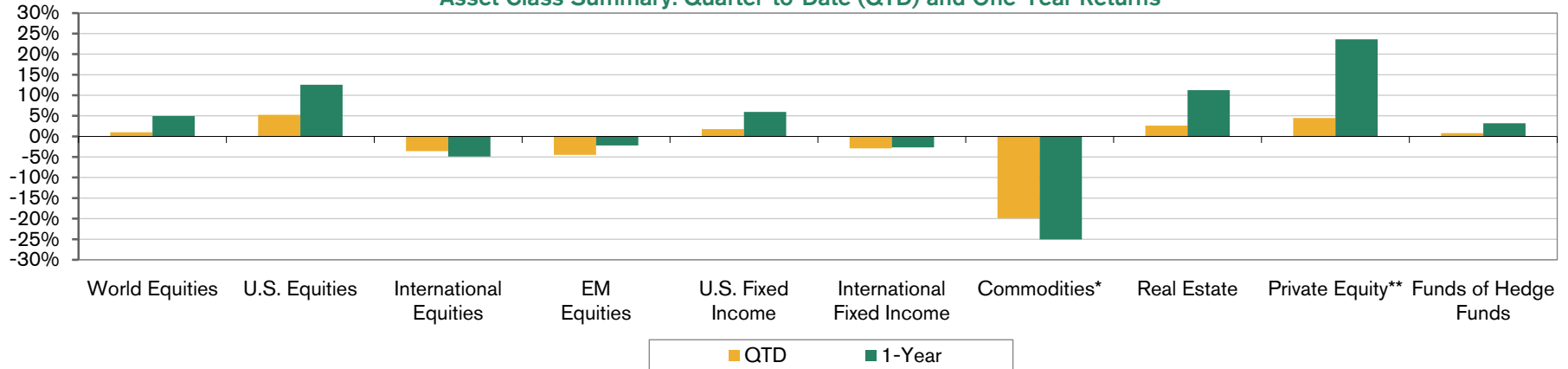


**Rogerscasey**  
A DIVISION OF SEGAL ADVISORS

## Fourth Quarter 2014 Investment Performance: Summary by Asset Class

This section provides data on investment performance for select market indices mostly for the fourth quarter (Q4) 2014, as well as Rogerscasey's commentary.

Asset Class Summary: Quarter-to-Date (QTD) and One-Year Returns



Asset Class	Indices	QTD	YTD	1-Year	3-Year	5-Year	10-Year
<b>Equities</b>	MSCI World (Net of dividends)	1.01	4.94	4.94	15.47	10.20	6.03
	Russell 3000	5.24	12.56	12.56	20.51	15.63	7.94
	MSCI EAFE (Net of dividends)	-3.57	-4.90	-4.90	11.06	5.33	4.43
	MSCI EM (Net of dividends)	-4.50	-2.19	-2.19	4.04	1.78	8.43
<b>Fixed Income</b>	Barclays Capital Aggregate	1.79	5.97	5.97	2.66	4.45	4.71
	Citigroup Non-U.S. WGBI (Unhedged)	-2.91	-2.68	-2.68	-1.94	0.85	2.64
<b>Other</b>	Commodity Splice*	-19.89	-25.04	-25.04	-11.15	-6.04	-3.33
	NCREIF NPI	2.63	8.51	11.26	11.09	10.99	8.55
	Thomson Reuters Private Equity**	4.47	8.18	23.63	14.52	17.67	12.98
	HFRI Fund of Funds Composite	0.79	3.19	3.19	5.62	3.26	3.02

World equity markets were positive in Q4. On a global factor\* basis, Growth, Sentiment, and Quality performed well, while Value and Risk performed poorly.

U.S. fixed income gained during Q4, but international fixed income fell. In the U.S., long-term Treasury yields decreased, while short-term rates increased. Corporate spreads widened during December.

Commodities ended Q4 in negative territory. On a sector basis, Grains outperformed, while Energy and Softs notably underperformed.

Hedge fund of funds performed positively overall. With regard to direct hedge funds, Q4 returns were mixed. Equity Hedge and Macro posted gains, while Event-Driven, Relative Value, and Emerging Markets declined.

\*Factors are attributes that explain differences in equity performance. Stocks are sorted based on their exposure to a particular factor, with the factor return being the difference in returns between stocks with high exposure and low exposure to a particular attribute.

\*Commodity Splice, a Rogerscasey index, blends the Bloomberg Commodity Index, formerly known as the DJ UBS Commodity Index (50%) and the S&P GSCI Index (50%), rebalanced monthly.

\*\*Performance reported as of Q2 2014 because Q3 2014 and Q4 2014 performance data is not yet available.

Sources: eVestment Alliance, Hueler Analytics, Thomson One and Hedge Fund Research, Inc.

## World Economy: Key Indicators

This section provides data on select U.S. and global economic indicators for Q4 2014 along with Rogerscasey's commentary.

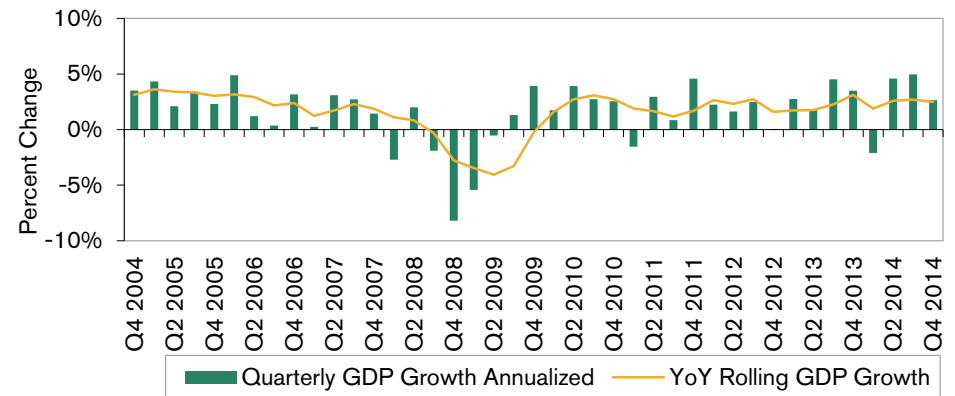
### GDP Growth

Real GDP grew at an annualized rate of 2.6 percent in Q4. The adjacent graph shows annualized GDP growth, along with the year-over-year (YoY) rolling percentage change in GDP.

Positive contributors for the quarter included consumption, fixed residential and nonresidential investment, and inventories. Net exports and government were detractors from GDP growth.

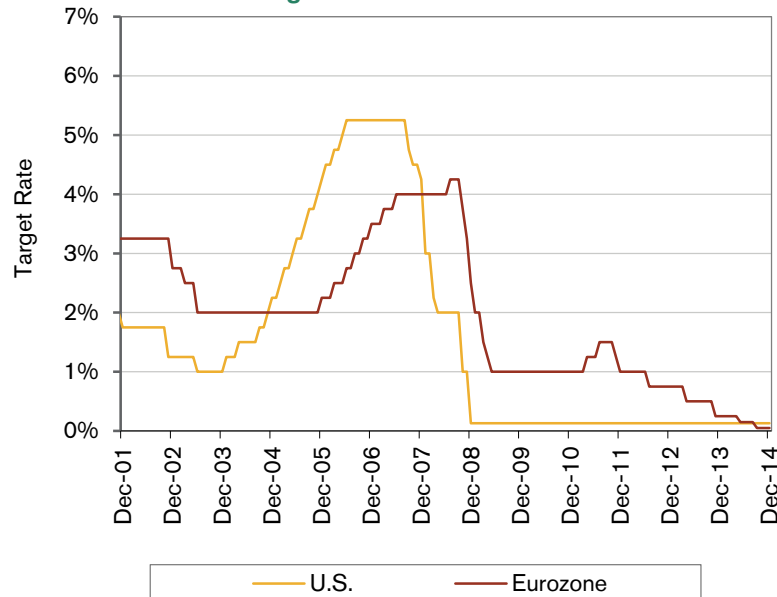
Lower oil prices and a strong U.S. dollar (USD) aided consumer spending. Continued USD strength may hamper exports in the future.

### U.S. GDP Growth: Annualized Quarterly and Year-over-Year (YoY) Rolling (%)



Source: U.S. Bureau of Economic Analysis

### Target Rates: U.S. and Eurozone



Sources: Rogerscasey using data from the Federal Reserve Board and the European Central Bank

### Monetary Policy

At its December meeting, the Federal Open Market Committee (FOMC) stated that it expects inflation to gradually rise to 2 percent with continued labor market improvement and energy price normalization from recent low levels. The Federal Funds Rate will remain between 0.0 and 0.25 percent toward the objectives of maximum employment and price stability. In an effort to maintain accommodative financial conditions, the FOMC will continue to reinvest principal payments from its agency debt and agency mortgage-backed securities holdings and roll over maturing Treasury securities at auction.

The European Central Bank (ECB) continued on course in December, holding its target refinancing rate at 0.05 percent, as well as its marginal lending rate at 0.30 and deposit rate at -0.20. The Eurozone continued to grapple with weak recovery, high levels of unemployment, and very low inflation.

The Bank of Japan (BoJ) maintained its quantitative and qualitative easing policy in December, with the goal of increasing the monetary base by approximately 80 trillion yen on an annual basis.

## World Economy: Key Indicators

This section provides data on select U.S. and global economic indicators for Q4 2014 along with Rogerscasey's commentary.

### Inflation

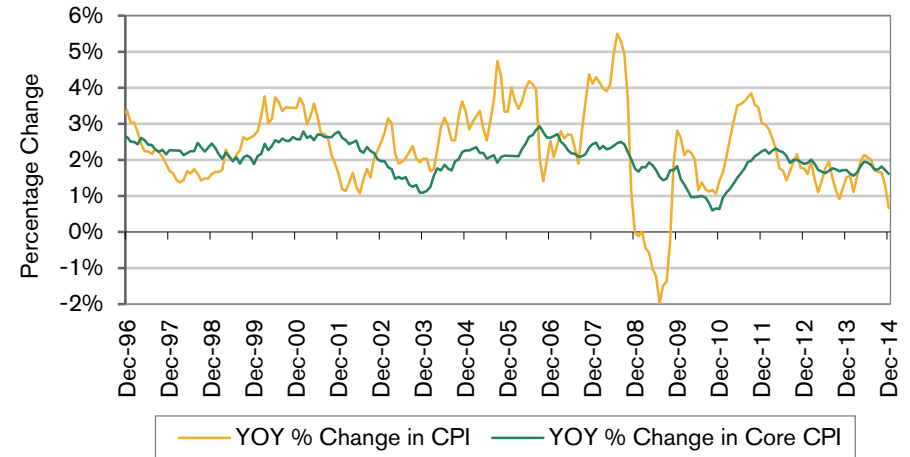
The headline seasonally adjusted Consumer Price Index (CPI)\* was down 0.62 percent in Q4, and advanced 0.66 percent on a YoY basis.

Seasonally adjusted Core CPI, which excludes both food and energy prices, rose 0.28 percent in Q4, bringing YoY Core CPI to 1.61 percent.

On an unadjusted 12 months basis ending December 2014, the energy component fell the most at -10.60 percent. Commodities less food and energy commodities was also slightly negative. Services less energy services and food were positive.

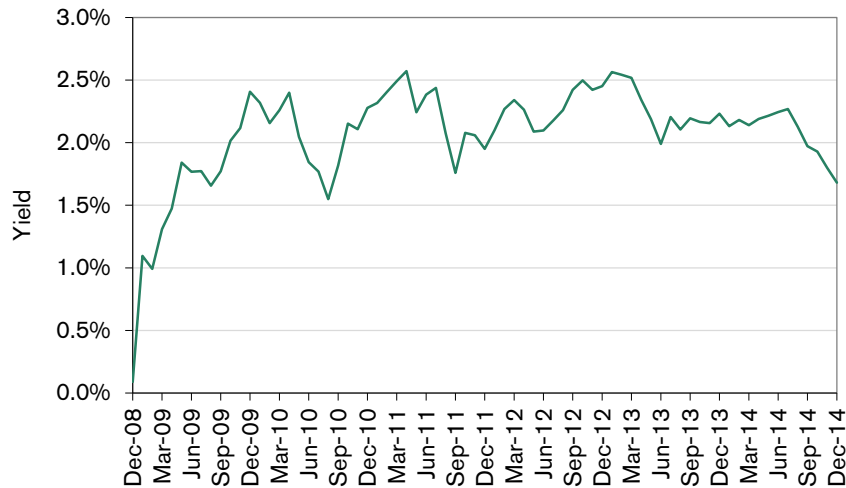
\* Headline CPI is the CPI-U, the CPI for all urban consumers.

### Headline CPI and Core CPI: Percentage Change YoY



Source: U.S. Bureau of Labor Statistics

### 10-Year Break-Even Inflation Rate



Source: Bloomberg

### Break-Even Inflation

The adjacent graph shows the 10-year break-even inflation rate, which measures the difference in yield between a nominal 10-year Treasury bond and a comparable 10-year Treasury inflation-protected security bond (TIPS). The break-even inflation rate is an indicator of the market's inflation expectations over the horizon of the bond.

The 10-year break-even rate decreased from 1.97 percent in Q3 to 1.68 percent in Q4. As noted on page 3 (see "Monetary Policy"), the Federal Reserve expects inflation to gradually rise to 2 percent.

## World Economy: Key Indicators

This section provides data on select U.S. and global economic indicators for Q4 2014 along with Rogerscasey's commentary.

### Labor Market and the Unemployment Rate

The U.S. unemployment rate fell from 5.9 percent in Q3 to 5.6 percent in Q4. Nonfarm payroll employment increased by 252,000 jobs in December, which was in-line with consensus expectations.

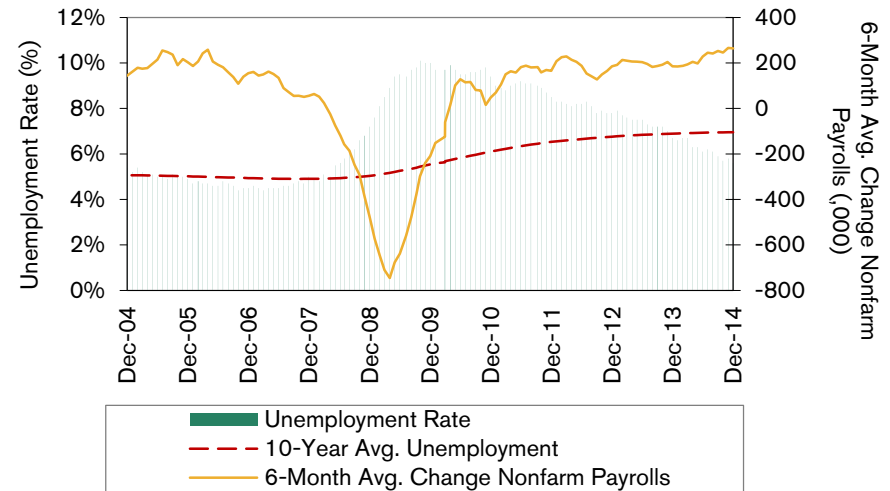
In Q4, goods-producing industries, services, and private industries each contributed about the same percentage to total nonfarm payroll gains as in Q3.

The one-month diffusion index\* rose from 63.4 in September to 63.6 in December.

The labor force participation stood unchanged from September at 62.7.

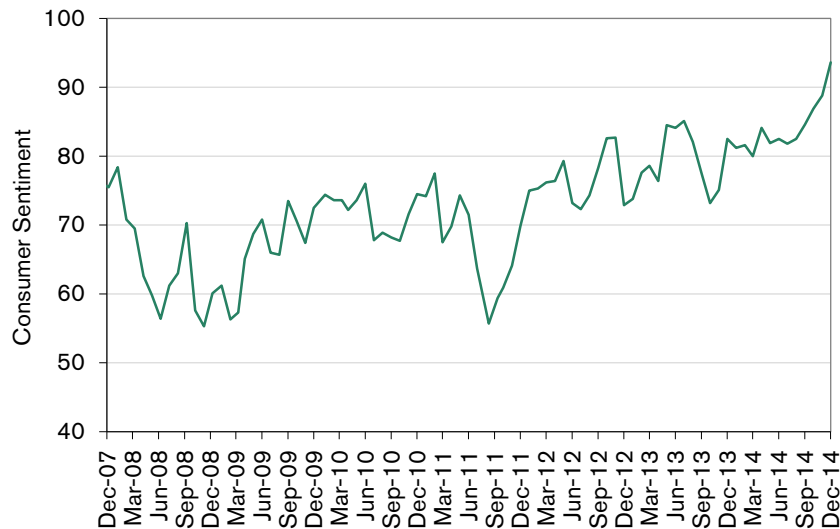
\*Per the Bureau of Labor Statistics, figures represent the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.

### Unemployment and Nonfarm Payrolls



Source: Bureau of Labor Statistics

### U.S. Consumer Sentiment



Source: Moody's Economy.com using data from the Thomson Reuters/University of Michigan Consumer Sentiment Index

### Consumer Sentiment

The University of Michigan Index of U.S. Consumer Sentiment is an economic indicator that measures individuals' confidence in the stability of their incomes as well as the state of the economy. The Consumer Sentiment Index rose from 84.6 in September 2014 to 93.6 in December, its strongest level since January 2007. Views on both present conditions and expectations increased from Q3.

Healthier household financial conditions and greater economic optimism combined with lower gasoline prices and increased job growth helped propel the advance in sentiment.

Inflation expectations declined on a one-year basis and on a five-year basis remained unchanged from Q3.

## Investor Sentiment: Mutual Fund Flows

This page presents mutual fund flows across equity and fixed-income funds. Flow estimates are derived from data collected covering more than 95 percent of industry assets and are adjusted to represent industry totals.

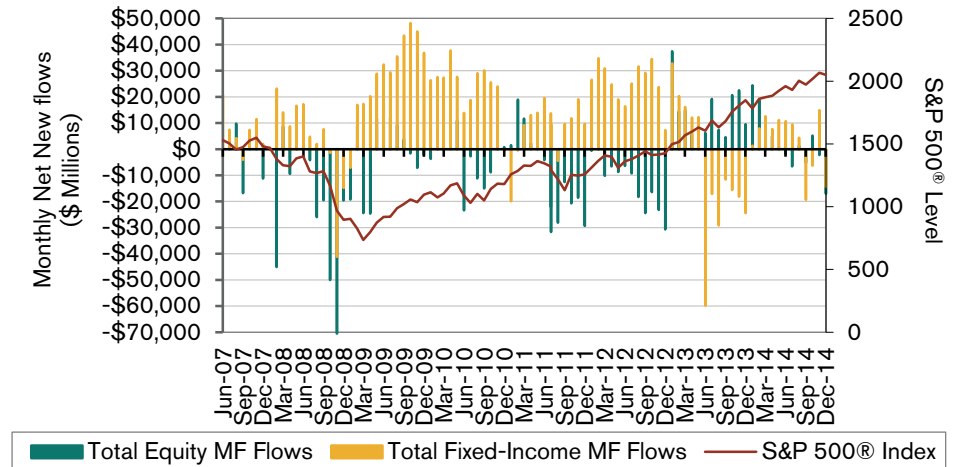
### Net Mutual Fund Flows

The adjacent graph shows net flows into equity and fixed-income mutual funds. In Q4, mutual funds experienced net outflows of approximately \$19.8 billion, a significant slowdown from Q3. Both equity and fixed income mutual funds had net outflows to end the quarter, which were primarily driven by negative flows in December.

Treasury rates trended lower in the first two months of Q4; in December, short rates increased following an indication by the Fed that interest rates may rise in the latter half of 2015. The Treasury curve flattened significantly, as the 10-year Treasury note ended Q4 at 2.2 percent, 32 bps lower than Q3.

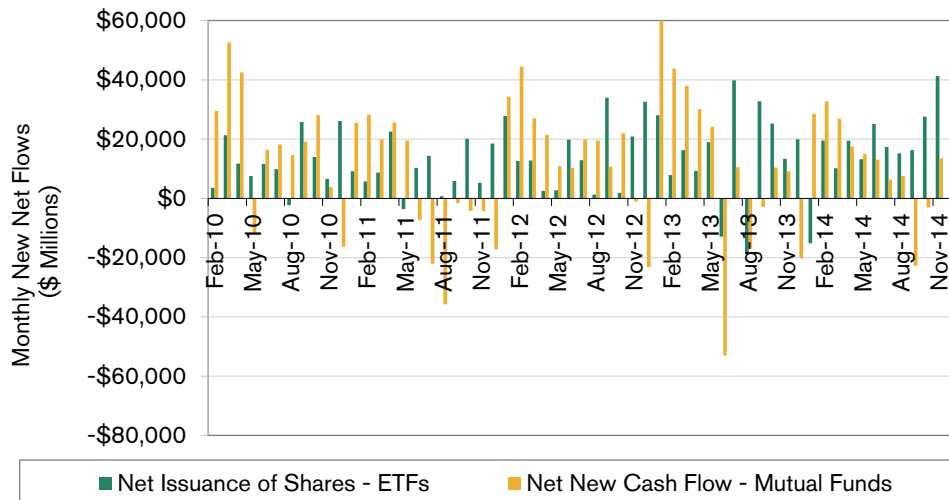
Equity mutual funds experienced approximately \$14.1 billion in outflows during Q4, driven by domestic mutual fund outflows of \$20.9 billion. International mutual funds experienced \$6.8 billion in inflows. Hybrid mutual funds experienced outflows of \$7.2 billion.

### Monthly Mutual Fund Net Flows (\$ Millions) Q4 2014



Source: Investment Company Institute <http://www.ici.org>

### Mutual Fund Flows vs. ETFs (\$ Millions): New Net Cash Flows



Source: Investment Company Institute <http://www.ici.org>

### Mutual Fund Flows vs. Exchange-Traded Funds

While mutual funds\* had over \$25.4 billion in net outflows during Q4, ETFs experienced net inflows totaling \$68.9 billion during October and November 2014 (December numbers have not yet been reported). In the year through November 2014, ETF issuance totaled \$190.0 billion. ETF assets totaled about \$2.0 trillion, up from around \$1.6 trillion in November 2013. All types of ETFs experienced inflows from October to November.

\*Includes domestic equity, foreign equity, taxable bond, municipal bond and hybrid mutual funds.

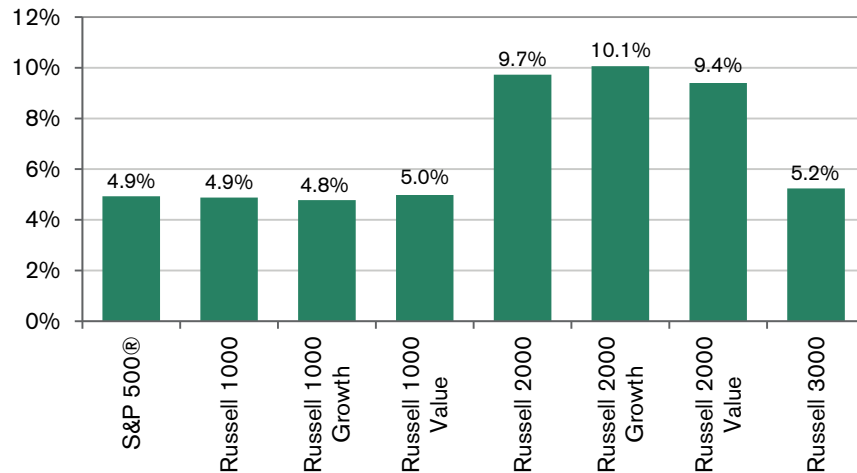


## Investment Performance: U.S. Equities

This section presents data and Rogerscasey's commentary on U.S. equity index returns and sector performance for Q4 2014.

### U.S. Equity Index Returns

The graph below illustrates Q4 2014 rates of return for selected U.S. equity indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



Equity Indices	QTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500® Index	4.93	13.69	13.69	20.41	15.45	7.67
Russell 1000	4.88	13.24	13.24	20.62	15.64	7.96
Russell 1000 Growth	4.78	13.05	13.05	20.26	15.81	8.49
Russell 1000 Value	4.98	13.45	13.45	20.89	15.42	7.30
Russell 2000	9.73	4.89	4.89	19.21	15.55	7.77
Russell 2000 Growth	10.06	5.60	5.60	20.14	16.80	8.54
Russell 2000 Value	9.40	4.22	4.22	18.29	14.26	6.89
Russell 3000	5.24	12.56	12.56	20.51	15.63	7.94

Sources: Standard & Poor's and Russell Investments

### S&P 500 Index® Sector Performance – Q4 2014

	QTD (%)	YTD (%)
Consumer Discretionary	8.7	9.7
Consumer Staples	8.2	16.0
Energy	-10.7	-7.8
Financials	7.2	15.2
Healthcare	7.5	25.3
Industrials	6.8	9.8
Information Technology	5.2	20.1
Materials	-1.8	6.9
Telecommunications Services	-4.2	3.0
Utilities	13.2	29.0

This table shows quarter-to-date and year-to-date price changes for each sector.

Source: Standard & Poor's

### Index and Sector Performance

A rally in Q4 led to full year numbers, shown in the table above, that were better than long-term averages might lead one to expect. Granted, 2014 represented a significant slowdown when compared to the prior two years, but all were very helpful in regaining losses sustained during the financial crisis.

Normally in a move as positive as Q4, one might expect cyclical sectors to lead the way and defensive stocks to trail, but Q4's leader in the S&P 500 was Utilities (13.2 percent), while the laggard was Energy (-10.7 percent). Although companies charged with producing commodities suffered, the resultant price drop in consumables used to produce goods, heat homes, and power automobiles was a boon for a number of stocks as well as consumers.

Small caps had a tremendous quarter, but poor returns in the first nine months of 2014 led to a year end result that was positive but disappointing. That said, the longer term figures show small caps trailed large caps only slightly over three years and were slightly ahead over five and ten years.

## Investment Performance: U.S. Equities

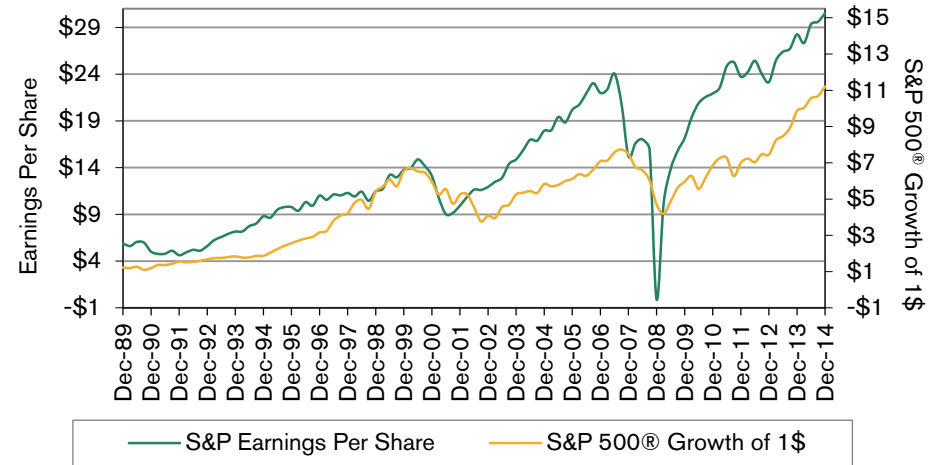
This section presents Rogerscasey's commentary on U.S. equity earnings and growth- vs. value-stock performance for Q4 2014.

### U.S. Equity Market Earnings and Volatility

The adjacent graph compares the total cumulative return and the earnings per share of companies in the S&P 500 Index since 1989. While earnings per share growth does not align perfectly with the growth of stock prices, there does appear to be a directional linkage, something upon which many investors count.

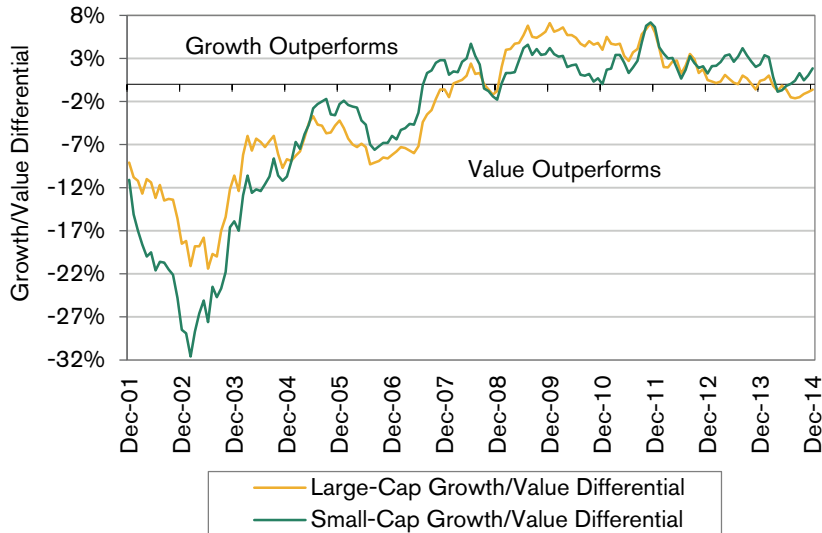
Earnings are perhaps the single most studied metric in a company's financial statements because they show a company's profitability. A company's quarterly and annual earnings are typically compared to analysts' estimates and guidance provided by the company itself. In most situations, when earnings do not meet either of those estimates, a company's stock price will tend to drop. On the other hand, when actual earnings beat estimates by a significant amount, the share price will likely surge. At the aggregate level, these swings tend to be more muted.

### S&P 500® Index: Earnings Per Share and Growth of 1\$



Source: Standard & Poor's

### Growth Stocks vs. Value Stocks (Rolling 3-Year)



Source: Russell Investments

### Growth vs. Value

The adjacent graph depicts the growth versus value differential for both large- and small-cap stocks over rolling three-year intervals. The large-cap calculation uses the Russell 1000 Growth (R1000G) versus the Russell 1000 Value (R1000V) and the small-cap differential is composed of the Russell 2000 Growth (R2000G) versus the Russell 2000 Value (R2000V).

An interesting dynamic in recent years has been that growth and value have largely been irrelevant in driving large cap equity returns, as the spread between the growth and value benchmarks has been quite narrow. Small caps have shown some preference for growth, but nowhere near the extremes experienced earlier in the millennium.

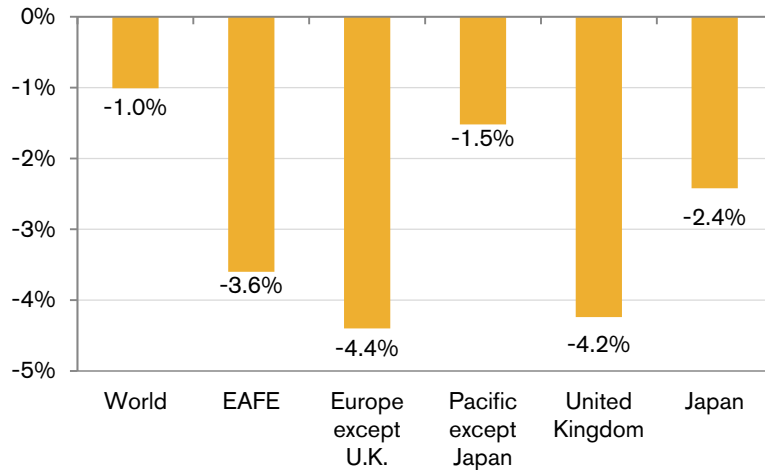


## Investment Performance: Non-U.S. Equities

This section presents data and Rogerscasey's commentary on international equity returns and sector performance for Q4 2014.

### MSCI Non-U.S. Equity Index Returns

The graph below illustrates Q4 2014 rates of return for selected non-U.S. equity indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



MSCI Indices	QTD	YTD	1 Year	3 Year	5 Year	10 Year
World	1.01	4.94	4.94	15.47	10.20	6.03
Europe, Australasia and Far East (EAFE)	-3.57	-4.90	-4.90	11.06	5.33	4.43
Europe except U.K.	-4.40	-6.55	-6.55	13.10	4.48	4.61
Pacific except Japan	-1.52	-0.47	-0.47	9.36	5.93	8.40
United Kingdom	-4.24	-5.39	-5.39	9.58	6.88	4.60
Japan	-2.42	-4.02	-4.02	9.71	5.48	2.29

Source: Morgan Stanley Capital International

### MSCI EAFE Sector Performance – Q4 2014

	QTD (%)	YTD (%)
Consumer Discretionary	2.8	-6.5
Consumer Staples	-1.9	-4.9
Energy	-19.8	-21.9
Financials	-3.5	-8.4
Healthcare	-5.5	3.7
Industrials	-3.6	-9.6
Information Technology	-0.7	-2.3
Materials	-5.4	-12.9
Telecommunications Services	-0.9	-7.4
Utilities	-4.4	0.4

This table shows quarter-to-date and year-to-date price changes for each sector.  
Source: Morgan Stanley Capital International

### Index and Sector Performance

The MSCI World Index (1.0 percent) posted a gain in Q4 due to strong U.S. economic growth and positive news from Hong Kong following the end of the pro-Democracy street protests. The MSCI EAFE Index (-3.6 percent) declined amid persistent economic weakness in Europe and falling oil prices. Stagnant European GDP growth data and re-emerging concerns about a possible Eurozone breakup caused investor sentiment to drop in the latter part of Q4. In addition, investors were disappointed following the ECB's December meeting that no additional measures to boost growth were announced. The MSCI Pacific ex-Japan Index (-1.5 percent) fell slightly less than other regions due to positive returns in New Zealand (2.5 percent) and Hong Kong (3.1 percent).

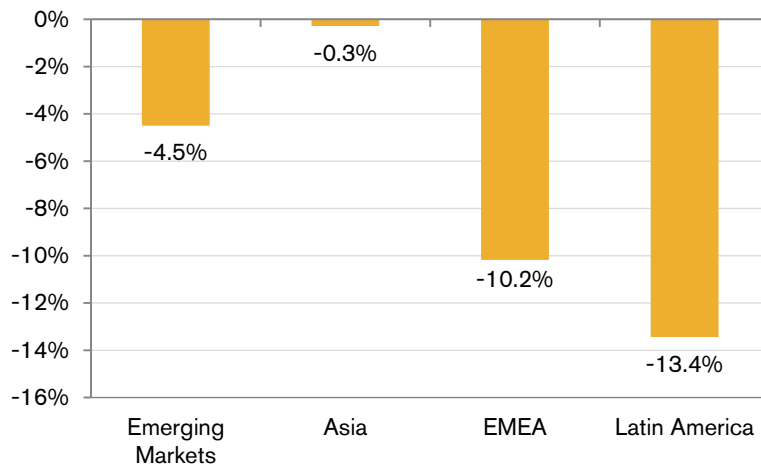
All sectors fell except Consumer Discretionary (2.8 percent). Consumer spending increased as lower oil prices translated into higher discretionary income. Not surprisingly, Energy was the worst performing sector, both in Q4 (-19.8 percent) and all of 2014 (-21.9 percent). OPEC's decision not to limit crude output has created an oversupply and lower demand scenario.

## Investment Performance: Emerging Market Equities

This section presents data and commentary on emerging market (EM) equity returns and sector performance for Q4 2014.

### MSCI Emerging Market Equity Index Returns

The graph below illustrates Q4 2014 rates of return for selected emerging market equity indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year, and 10-year annualized timeframes. All data in the table are percentages.



MSCI EM Indices	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Emerging Markets (All)	-4.50	-2.19	-2.19	4.04	1.78	8.43
Asia	-0.28	4.89	4.89	8.93	4.89	9.43
Europe, Middle East and Africa (EMEA)	-10.18	-15.18	-15.18	-0.66	-0.72	4.68
Latin America	-13.44	-12.3	-12.3	-6.19	-5.26	9.34

Source: Morgan Stanley Capital International

### MSCI EM Sector Performance – Q4 2014

	QTD (%)	YTD (%)
Consumer Discretionary	-2.7	-1.5
Consumer Staples	-5.0	-4.9
Energy	-24.5	-26.8
Financials	1.6	5.2
Healthcare	-0.9	19.5
Industrials	-4.3	-2.9
Information Technology	1.4	9.9
Materials	-12.3	-19.6
Telecommunications Services	-6.7	-1.8
Utilities	-5.9	2.4

This table shows quarter-to-date and year-to-date price changes for each sector.  
Source: Morgan Stanley Capital International

### Index and Sector Performance

The MSCI Emerging Markets (EM) Index (-4.5 percent) continued to slide in Q4, largely due to weak December performance (-4.6 percent). The sharp decline in emerging markets was driven by the rapid fall of commodity prices, particularly oil, which triggered the worst economic crisis in Russia since its default in 1998. Currency had a material impact on Q4 performance, as the MSCI EM Index was flat in local currency terms.

All regions posted negative returns. Latin America (-13.4 percent) fell the most, followed by EMEA (-10.2 percent) and Asia (-0.3 percent). Turkey (11.6 percent) and China (7.2 percent) were the top performing EM countries, while Russia (-32.9 percent) and Greece (-28.8 percent) fell the most. Brazil (-15.9 percent) also fell sharply, hurt by falling commodity prices, the depreciation of the real, weak economic growth, and the re-election of Dilma Rousseff, which dampened hopes for reform.

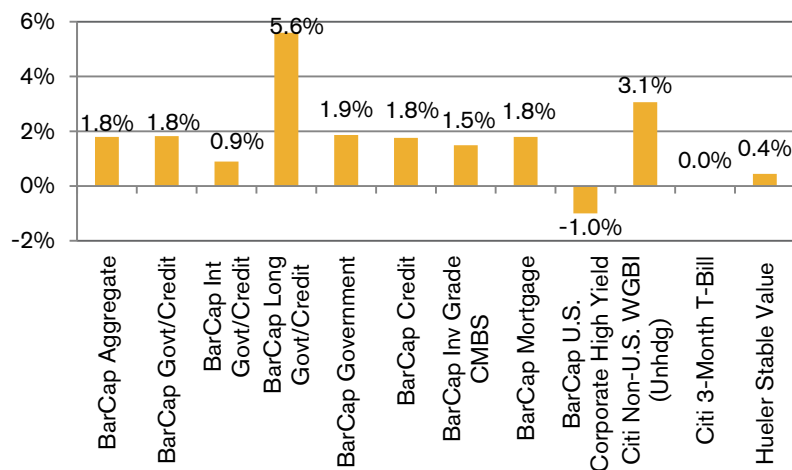
Financials (1.6 percent) and Information Technology (1.4 percent) were the only sectors to post positive returns. In Q4 and for the year 2014, defensive sectors such as Healthcare (-0.9 percent) fared better than cyclical sectors such as Energy (-24.5 percent) and Materials (-12.3 percent).

## Investment Performance: U.S. Fixed Income

This section presents select U.S. fixed-income index data along with commentary on option-adjusted spreads (OAS) during Q4 2014.

### U.S. Fixed Income Index Returns

The graph below illustrates Q4 2014 rates of return for selected U.S. fixed-income indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



Fixed-Income Indices	QTD	YTD	1 Year	3 Year	5 Year	10 Year
BarCap Aggregate	1.79	5.97	5.97	2.66	4.45	4.71
BarCap Govt/Credit	1.82	6.01	6.01	2.76	4.69	4.70
BarCap Int Govt/Credit	0.89	3.13	3.13	2.03	3.54	4.09
BarCap Long Govt/Credit	5.60	19.31	19.31	5.77	9.81	7.36
BarCap Government	1.86	4.92	4.92	1.40	3.70	4.29
BarCap Credit	1.76	7.53	7.53	4.84	6.25	5.46
BarCap Inv Grade CMBS	1.49	4.21	4.21	4.74	8.13	5.04
BarCap Mortgage	1.79	6.08	6.08	2.37	3.73	4.75
BarCap U.S. Corporate High Yield	-1.00	2.45	2.45	8.43	9.03	7.74
Citi Non-U.S. WGBI** (Unhdg)	-2.91	-2.68	-2.68	-1.94	0.85	2.64
Citi 3-Month T-Bill	0.00	0.02	0.02	0.06	0.07	1.46
Hueler Stable Value	0.44	1.69	1.69	1.93	2.32	3.34

Sources: Barclays Capital, Citigroup and Hueler Analytics

### OAS\* in Bps

	09/30/14	12/31/14	Change in OAS	10-Year Average
U.S. Aggregate Index	43	48	5	68
U.S. Agency (Non-mortgage) Sector	39	52	3	42
<b>Securitized Sectors:</b>				
Mortgage-Backed Securities	30	27	-3	55
Asset-Backed Securities	56	58	2	137
Commercial Mortgage-Backed Securities	99	98	-1	238
<b>Corporate Sectors:</b>				
U.S. Investment Grade	112	131	19	169
Industrial	115	140	25	155
Utility	106	119	13	159
Financial Institutions	107	117	10	193
U.S. High Yield	424	483	59	561

\*OAS is the yield spread of bonds versus Treasury yields taking into consideration differing bond options.  
Source: Barclays Capital

### Option-Adjusted Spreads

Most sectors of the bond market posted positive results in Q4 despite the mixed showing of option-adjusted spreads. The mortgage market experienced a slight spread contraction, as gross mortgage-backed security issuance fell throughout the year.

By contrast, weak global growth outside of the U.S. along with heavy supply causing corporate spreads to widen across all sectors. Industrials lagged financials and utilities, as falling oil prices adversely impacted energy-related sectors. Widening was most pronounced in the high yield market where spreads ticked up 59 bps, contributing to a 1.0 percent drawdown for Q4.

## Investment Performance: U.S. Fixed Income

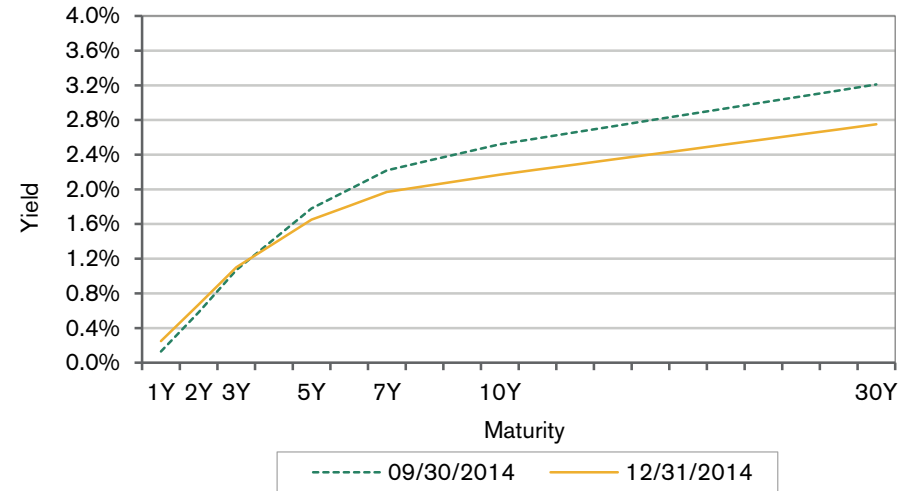
This section presents commentary on the U.S. Treasury yield curve and credit spreads during Q4 2014.

### Yield Curve

The U.S. Treasury Curve flattened during Q4. The yield gap between 2-year and 10-year Treasuries fell from 1.91 percent to 1.51 percent. At the short end of the curve, yields rose in response to the anticipated Federal Funds rate hike in 2015. At the long end of the curve, yields fell due to declining energy prices and weak global growth.

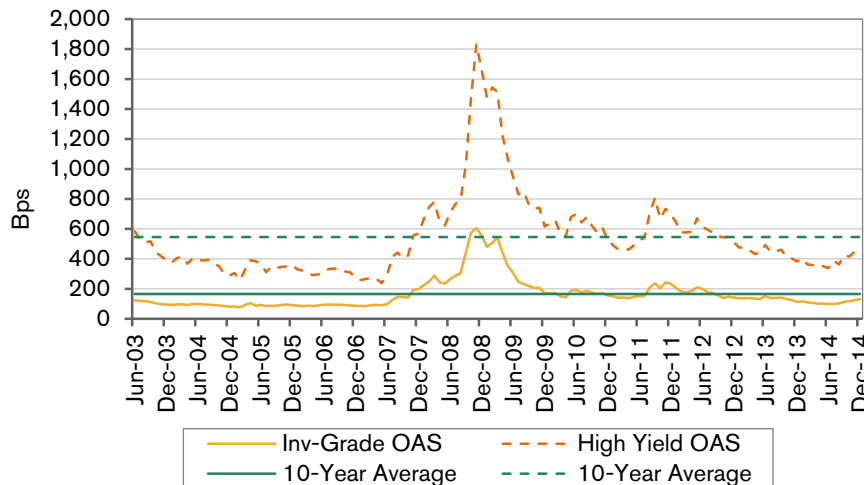
The 10-year U.S. Treasury yield ended Q4 at 2.2 percent, 32 bps below Q3.

### U.S. Treasury Yield Curve



Source: Bloomberg

### Barclays Capital Corporate Bond Spreads



Source: Barclays Capital

### Credit Spreads

Investment grade corporate spreads widened by 19 bps during Q4 and ended the quarter with an option-adjusted spread of 131 bps over Treasuries, as shown in the adjacent graph. From a historical perspective, spreads have widened to 38 bps below the 10-year average of 169 bps.

High yield bond spreads widened by 59 bps during Q4, ending December with an OAS of 4.8 percent, which is 78 bps below the 10-year average of 561 bps.

## Investment Performance: Non-U.S. Fixed Income

This page focuses on international fixed-income asset class data and information on EM debt (EMD) for Q4 2014.

### International Fixed Income

In Q4, global sovereign bonds, as measured by the Citigroup World Government Bond Index (WGBI), gained in local currency terms (2.7 percent), but lost in unhedged terms (-1.5 percent). The BarCap Global Aggregate Index (-1.0 percent), which includes spread sectors, beat the sovereign-only Citigroup WGBI Index by roughly 50 bps on an unhedged basis. Non-U.S. government bonds, as measured by the Citigroup Non-U.S. WGBI, outperformed U.S. government bonds by roughly 40 bps in local currency terms, but lagged by 140 bps in unhedged currency terms.

Currency themes dominated the return profile for Q4, as the strong USD dampened international bond returns. On an unhedged basis, most WGBI components finished the quarter in negative territory.

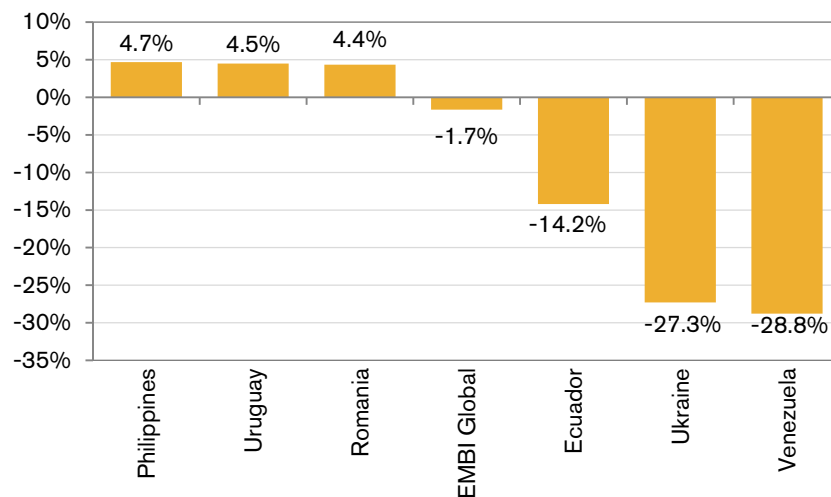
Two notable underperformers during Q4 were Norway (-10.8 percent) and Japan (-6.2 percent), who both suffered from the currency impact. The Norwegian krone slid on lower oil prices and the JPY weakened after the BoJ unexpectedly expanded its stimulus spending program.

### Citigroup WGBI: Returns of Major Constituents (%)

Country	Local Currency Return (Qtr)	Currency Effect	Unhedged Total Return (Qtr)
United States	1.9	-	1.9
Canada	2.6	-3.6	-1.0
Australia	4.8	-6.8	-2.0
Japan	2.5	-8.7	-6.2
Austria	3.2	-4.3	-1.1
Belgium	3.1	-4.3	-1.2
France	2.9	-4.4	-1.5
Germany	2.8	-4.4	-1.6
Italy	2.6	-4.3	-1.7
Netherlands	2.8	-4.3	-1.5
Spain	2.8	-4.4	-1.6
United Kingdom	6.8	-4.1	2.7
Non-U.S. Govt. Bond	3.1	-6.0	-2.9
World Govt. Bond	2.7	-4.2	-1.5

Sources: Citigroup and Barclays Capital

### J.P. Morgan EMBI Global Index Best and Worst-Performing Markets



Source: J.P. Morgan

### Emerging Market Debt

In Q4, EMD posted negative performance across external, corporate, and local sectors. In general, dollar-denominated issues held up better than local issues due to the strength of the USD.

The corporate JPMorgan CEMBI Broad Diversified Index (-1.2 percent) fell. Concerns over the conflict in Eastern Ukraine put pressure on both Ukrainian (-19.9 percent) and Russian (-13.3 percent) issues, dragging down the index returns, while Mongolian (8.5 percent) issues aided performance.

The hard currency sovereign sector declined, as measured by the JPMorgan EMBI Global Index (-1.7 percent). Once again, Ukraine (-27.3 percent) was among the worst performers, as was Venezuela (-28.8 percent), whose economic health has been in decline as a result of government mismanagement.

The local JPMorgan GBI-EM Global Diversified Index fell USD unhedged terms (-5.7 percent). Currency impact was the primary reason for the drawdown, as the index gained in local terms (2.3 percent). Once again, the geopolitical tensions in Eastern Europe dragged down the index returns, with Russian (-12.1 percent) issues posting a double-digit decline during Q4.



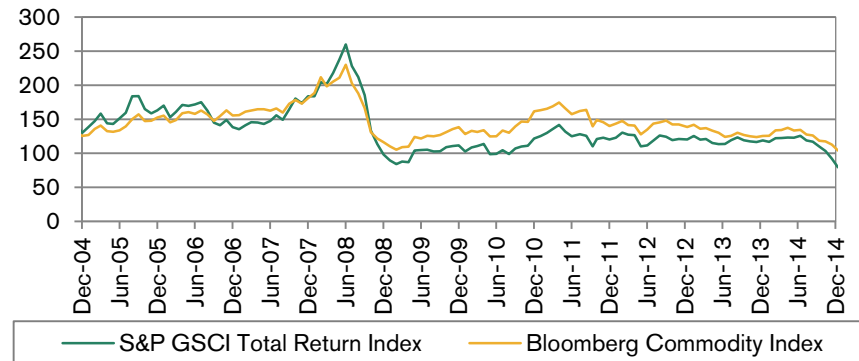
## Investment Performance: Commodities and Currencies

This section presents performance information about commodities and major world currencies as of Q4 2014.

### Commodities

Commodities experienced a dramatic decline in value during Q4. The S&P GSCI (-27.7 percent) and Bloomberg Commodity Index (-12.1 percent) each posted double-digit losses. Energy was the worst performer of Q4, posting a -38.9 percent return in the S&P GSCI Index and a -36.6 percent return in the Bloomberg Commodity Index. This steep decline is largely attributable to a precipitous drop in oil prices caused by high inventories, weak global demand and a strong U.S. dollar (USD). Industrial Metals and Livestock also performed poorly, each falling into negative territory by more than 5 percent in both indices. A strong USD also continued to exert downward pressure on commodity prices. Agriculture, which climbed 8.7 percent and 5.6 percent in the S&P GSCI and the Bloomberg Commodity Index, respectively, was the only sector to end the quarter in positive territory. Corn, soybeans and wheat performed especially well in Q4, but these gains were not enough to offset poor returns caused by near ideal growing conditions during the rest of 2014.

### Monthly Commodity Returns, Growth of \$100: December 2004 – December 2014



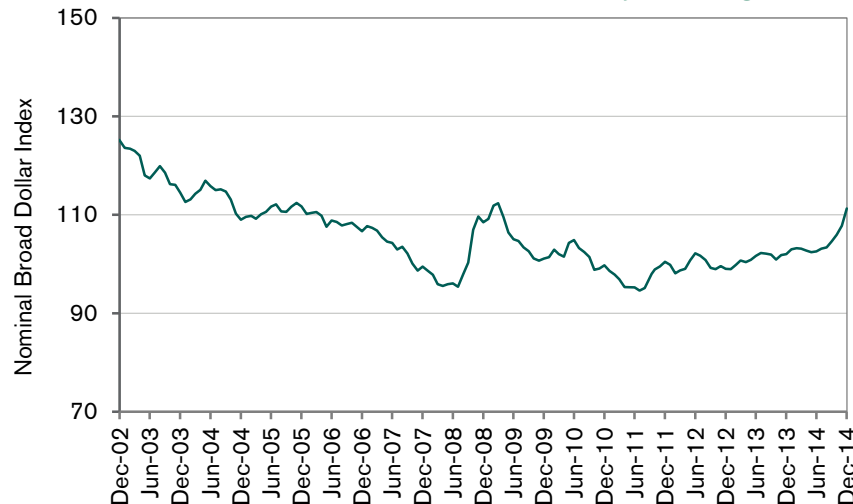
The graph above shows the major commodity indices, the S&P GSCI\* Index and the Bloomberg Commodity Index\*\*

\* The S&P GSCI Index is calculated primarily on a world production-weighted basis and is composed of the principal physical commodities that are the subject of active, liquid futures markets.

\*\* The Bloomberg Commodity Index is composed of futures contracts on physical commodities, with weighting restrictions on individual commodities and commodity groups to promote diversification.

Sources: eVestment Alliance and Deutsche Bank

### Nominal Broad Dollar Index: USD vs. Basket of Major Trading Partners



Sources: Federal Reserve and Bloomberg

### Currencies

The adjacent graph shows the USD against a basket of 16 major market currencies, including those listed in the table below: the Canadian dollar (CAD), the euro (EUR), the Japanese yen (JPY), the Swiss franc (CHF), and the British pound-sterling (GBP).

In Q4, the U.S. Nominal Broad Dollar Index strengthened by 6.39 percent. The USD should continue to benefit from higher relative economic growth, the potential for higher interest rates, and an improving trade deficit.

USD Major Trading Partners	Pairs	Q4 Level	YTD	5-Year Average
Canada	USD/CAD	1.1621	9.39%	1.0331
Eurozone	USD/EUR	0.8266	13.59%	0.7522
Japan	USD/JPY	119.7800	13.74%	90.2733
Switzerland	USD/CHF	0.9943	11.36%	0.9395
U.K.	USD/GBP	0.6419	6.27%	0.6291



# Investment Performance: Hedge Funds

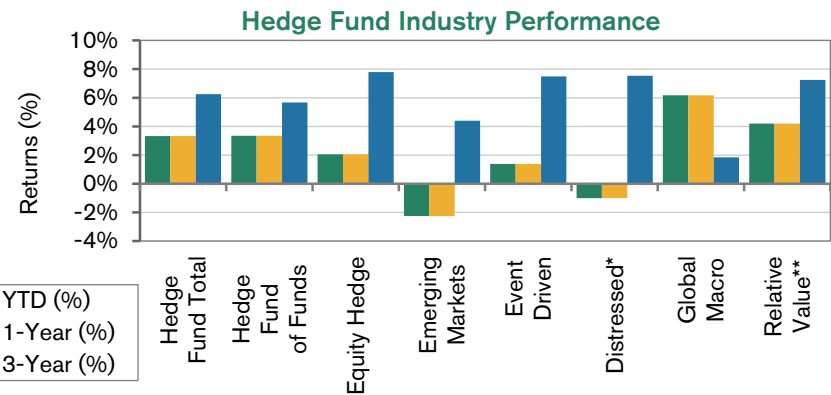
This section provides an overview of hedge fund results along with an analysis of strategy performance during Q4 2014.

## Hedge Fund Overview

The Hedge Fund Research, Inc. (HFRI) Fund Weighted Composite Index gained 0.5 percent in Q4. Hedge funds broadly posted losses in October, finished higher in November, and recorded modest gains in December. Two out of the five major hedge fund strategies gained in Q4. The strongest performer was Global Macro (2.3 percent), followed by Equity Hedge (0.2 percent). Meanwhile, Emerging Markets (-3.8 percent) and Event Driven (-1.2 percent) were the worst performing strategies.

Longer-term results are positive. Hedge funds recorded a gain of 6.3 percent over the three-year period ending December 31, 2014, as measured by the HFRI Fund Weighted Composite Index.

Hedge funds of funds gained in Q4, as represented by the HFRI Fund of Funds (FOF) Composite Index (0.9 percent). The HFRI FOF: Conservative Index returned 0.5 percent and the HFRI FOF: Diversified Index gained 0.8 percent.



\* Distressed funds focus on companies that are close to or in bankruptcy.

\*\*Relative-value funds focus on arbitrage opportunities between equity and fixed income securities.

Source: Hedge Fund Research, Inc.

## HFRI Index Returns – Q4 2014 (%)

	Oct	Nov	Dec	QTD	YTD
Fund of Funds Composite	-0.6	1.3	0.3	0.9	3.4
FOF: Conservative	-0.9	0.8	0.6	0.5	3.4
FOF: Diversified	-0.6	1.4	0.1	0.8	3.2
Fund Weighted Composite	-0.4	0.8	0.1	0.5	3.3
Equity Hedge (Total)	-0.1	0.4	-0.2	0.2	2.1
Equity Market Neutral	0.1	1.0	0.6	1.6	3.5
Short Bias	-1.4	-0.9	0.0	-2.2	-4.0
Event-Driven (Total)	-1.8	0.4	0.2	-1.2	1.4
Distressed/Restructuring	-1.9	-0.4	-1.3	-3.4	-1.0
Merger Arbitrage	-1.4	1.0	0.4	0.0	1.7
Relative Value (Total)	-0.6	0.3	-0.3	-0.7	4.2
FI-Convertible Arbitrage	-1.1	0.4	0.5	-0.2	2.0
Global Macro (Total)	-0.2	2.3	0.8	2.3	6.2
Emerging Markets (Total)	-1.0	-0.9	-2.0	-3.8	-2.3

Source: Hedge Fund Research, Inc.

## Strategy Analysis

The HFRI Global Macro Index (2.3 percent) posted the strongest performance of the major hedge fund strategies during Q4 and for the year 2014. Most managers reported positive quarterly results, including Multi-Strategy, Systematic Diversified, Currency, Commodity, and Active Trading managers. Meanwhile, Discretionary managers posted modest losses during the period.

The HFRI Equity Hedge Index (0.2 percent) rose in Q4, as gains in November offset losses during October and December. Energy/Basic Materials managers detracted the most from performance, falling 9.3 percent. Fundamental Growth, Short Bias managers also ended Q4 with losses. Meanwhile, Equity Market Neutral, Fundamental Value, Multi-Strategy, Technology/Healthcare, and Quantitative Directional managers produced gains.

The HFRI Emerging Markets Index (-3.8 percent) fell in Q4. Latin American and Russian/Eastern European managers led the index lower, following Q4 losses of -5.7 percent and -17.1 percent, respectively. Additionally, Global and MENA managers also finished the period lower. Meanwhile, Asia ex-Japan, China, and India managers all reported gains for Q4.

The HFRI Event-Driven Index (-1.2 percent) decreased. Distressed/Restructuring detracted the most from performance, with a -3.4 percent loss for Q4. Elsewhere, Credit Arbitrage, Multi-Strategy, and Special Situations manager also declined. Meanwhile, Activist and Merger Arbitrage managers gained.

The HFRI Relative Value Index (-0.7 percent) posted a loss in Q4. Fixed Income Asset Backed and Multi-Strategy managers gained, while Fixed Income Convertible Arbitrage and Fixed Income Corporate, Fixed Income Sovereign, Volatility, and Yield Alternatives managers fell.

## Investment Performance: Private Equity

This section provides data on private equity industry performance, fundraising, buyout funds, initial public offering (IPO) activity and venture capital. The information in this section reflects the most recent private equity data available.

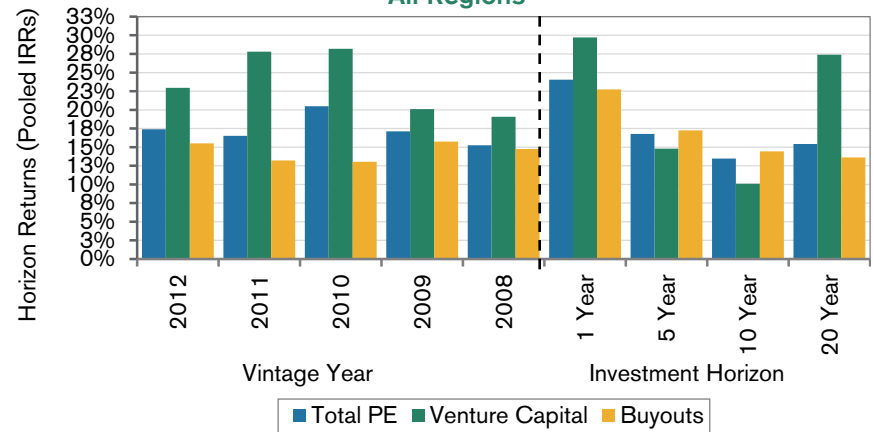
### Private Equity Industry Performance

The adjacent graph shows private equity fund performance for Q2 2014, calculated as pooled internal rates of return (IRR) of funds reporting to Thomson One. Performance for 2008 through 2012 vintage-year funds, as well as one-, five-, 10- and 20-year returns is calculated for funds in the following categories: all private equity, venture capital and buyouts. While venture and buyout strategies are posting positive returns for these vintage years, venture funds are outperforming buyout strategies over each vintage year.

Private equity funds for all regions returned approximately 4.6 percent in Q2 2014 and 24.17 percent over the one-year period. This includes performance across all private equity strategies. Over a 20-year period, all private equity, venture capital and buyout funds generated double-digit returns of 15.4 percent, 27.4 percent and 13.6 percent, respectively.

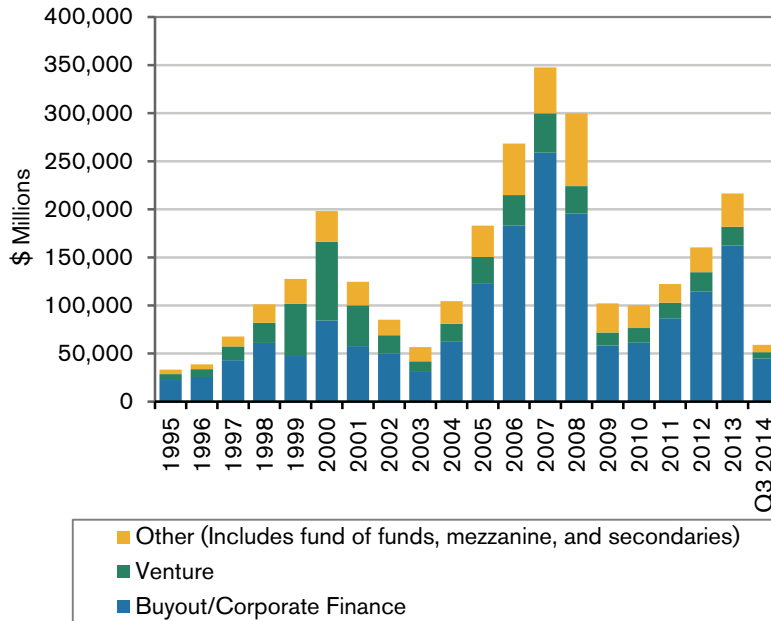
\*"Vintage year" refers to the first year capital was committed in a particular fund. Vintage-year performance is calculated as the median percentile returns of all funds reporting as pooled IRRs.

### Private Equity Performance by Vintage Year and Investment Horizon: All Regions



Source: Thomson Reuters

### Private Equity Commitments: United States



\* Includes fund of funds, mezzanine, and secondaries.

Sources: *The Private Equity Analyst*, Preqin

### Private Equity Overview

According to *The Private Equity Analyst*, private equity firms experienced a modest drop in fundraising in Q3, collecting \$59.1 billion, a 3 percent decrease from one year earlier. Fundraising fell despite strong distributions, which may reflect investor concerns over dry powder and valuations.

The fall in fundraising is largely attributable to a decline in buyout and corporate finance fundraising, as 97 funds raised \$44.87 billion, a 9 percent decrease from Q2. Within this market segment, traditional buyout, co-investment and distressed funds fared worse than in Q2, while fundraising for industry-focused and growth equity funds increased. Venture capital raised \$6.5 billion in Q3 amidst a robust exit environment and attractive returns. The \$24.6 billion raised thus far in 2014 eclipses the total for all of 2013. Secondary funds and fund of funds experienced steep drops in fundraising in Q3, while mezzanine fundraising increased more than 45 percent over Q3 2013.

In Q3, 23 venture-backed IPOs raised \$2.6 billion in aggregate, 18 percent less in listings and 48 percent less in dollars than Q2. The biotech sector accounted for 18 of the 23 offerings. There were 119 venture-backed M&A deals in Q3, representing \$7.9 billion in deal value, the highest in two years. Buyout exit activity decreased from Q2 for M&As and IPOs.

Venture capital firms placed \$9.9 billion in 1,023 deals during Q3, as venture capital investing outpaced 2013 totals. Buyout deal activity increased, as firms completed 536 transactions in Q3 compared to 504 in Q2. Aggregate deal value increased 26 percent to \$72 billion from \$36 billion in Q2, largely due to the add-on acquisition of Tim Horton's for \$11.5 billion.

## Investment Performance: Real Estate

This page presents data and Rogerscasey's commentary on private and public real estate.

### Private Real Estate

The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI), which tracks private real estate in the U.S., gained 3.0 percent during Q4. The total return is composed of 1.3 percent income and 1.8 percent property-level appreciation\*\*. Over the trailing one-year period, the Index gained 11.8 percent, composed of 6.2 percent property-level appreciation and 5.4 percent income\*\*.

In the regions of the U.S., the West performed the best during Q4 and over the last 12 months, as shown in the adjacent table.

Strong operating fundamentals continued due, in part, to modest new supply across most sectors in the U.S. Shorter-lease-term sectors such as apartments, hotels, storage and high-end malls have generated the strongest operating performance over the past few years. Investor demand for high-quality assets with secure income streams remained strong even at lower return expectation levels, while secondary assets continued to experience wide, but narrowing, bid-ask spreads across most markets\*.

\*A "bid" is the offer price from a buyer and an "ask" is the requested price from a seller. Currently, the bid-ask spread, or the difference between the two, is large enough that few secondary asset transactions have been taking place.

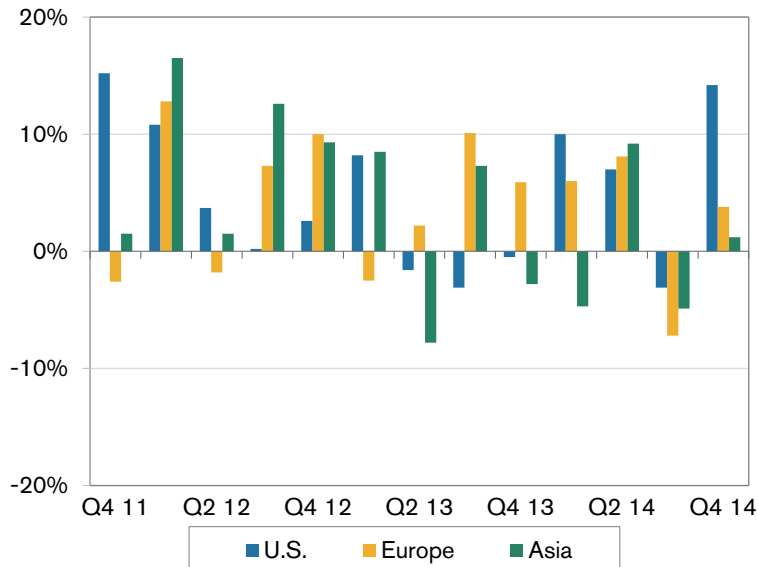
\*\*Figures may not add to total due to rounding.

### National Property Index Sector and Region Performance

	Ending Weight (%)	Returns as of Q4 2014	
		QTD (%)	1 Year (%)
<b>NCREIF NPI Total Return</b>	100.0	3.0	11.8
<b>Sector</b>			
Apartment	24.4	2.8	10.3
Hotel	1.6	4.3	11.1
Industrial	13.5	3.9	13.4
Office	37.3	3.1	11.5
Retail	23.2	2.7	13.1
<b>NCREIF Region</b>			
East	34.2	2.5	9.3
Midwest	9.3	3.0	11.4
South	20.6	3.2	13.2
West	35.9	3.5	13.6

Source: National Council of Real Estate Investment Fiduciaries

### Regional Real Estate Securities Performance



Source: National Association of Real Estate Investment Trusts

### Public Real Estate

The FTSE EPRA/NAREIT Global Developed Real Estate Index total market capitalization increased to \$1.3 trillion in Q4, broken down as follows: North America \$705 billion, Europe \$195 billion, and Asia \$354 billion. Lower sovereign debt yields globally as well as strong operating performance and transaction activity in the U.S. contributed to an 8.1 percent gain on a global basis in Q4. The U.S. (14.2 percent) outperformed Europe (3.8 percent) and Asia (1.2 percent) as measured by the FTSE EPRA/NAREIT indices. Sector performance in the U.S. was positive across the board: Manufactured Home Communities (21.2 percent), Healthcare (17.0 percent), Lodging (16.4 percent), Primary CBD Office (16.4 percent), Apartments (16.1 percent), Student Apartments (16.0 percent), Industrial (15.8 percent), and Shopping Centers (15.6 percent) were notable outperformers. Net Lease (4.3 percent), Diversified/Financial (5.4 percent), and Secondary CBD/Suburban Office (8.9 percent) posted strong gains, but underperformed the broader index.

Property stocks in Europe were supported by the possibility of quantitative easing. Asia rose modestly, its return subdued by economic concerns and currency weakness. In Europe, Germany (11.0 percent), Sweden (8.0 percent), and the U.K. (5.7 percent) outperformed, while Greece (-19.5 percent), Norway (-9.1 percent), Finland (-6.1 percent), Spain (-5.3 percent), Italy (-2.2 percent), France (-1.9 percent), Austria (-0.8 percent), and the Netherlands (-0.3 percent) lagged. In Asia, New Zealand (9.6 percent), Hong Kong (5.4 percent), and Australia (4.3 percent) outperformed, while Japan (-2.5 percent) and Singapore (-0.1 percent) fell.

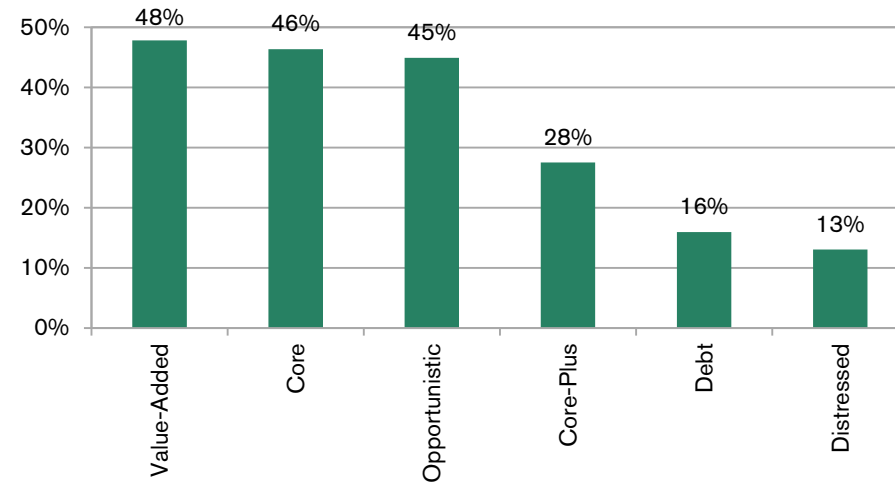
## Investment Performance: Real Estate

This page presents data and Rogerscasey's commentary on value-added and opportunistic real estate. The information in this section reflects the most recent data available.

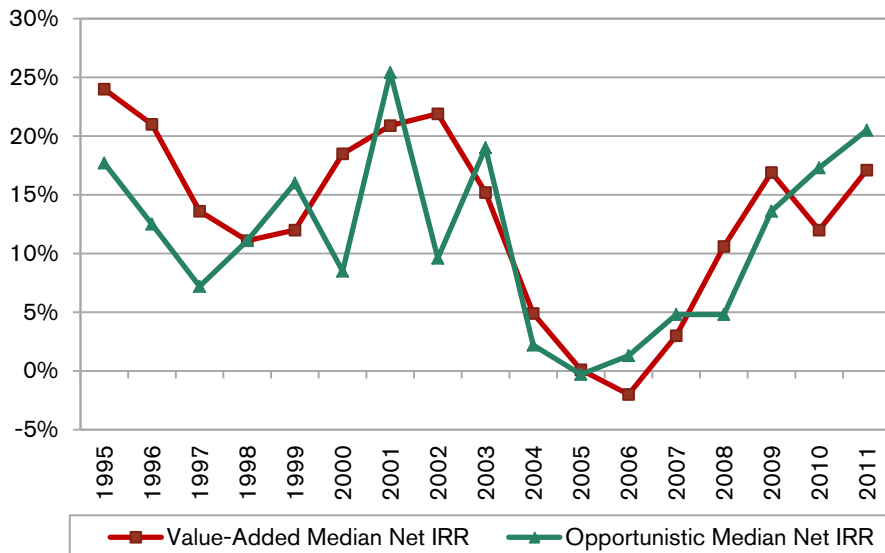
### Value-Added and Opportunistic Real Estate

Private real estate investors indicated that in 2015 they would continue to target higher risk/higher return strategies such as value-added, opportunistic, core and, to a lesser extent, core-plus, as shown in the graph at right. These strategies have generated attractive returns in recent years. The strong performance of value-added and opportunistic funds, particularly for the last few vintage years for which the data is meaningful, is illustrated in the graph below. According to Prequin, private real estate assets under management reached an all-time high of \$742 billion in 2014, and the uncalled capital available for investment (*i.e.*, dry powder) also set a record high of \$221 billion. Additionally, investors' average target allocation to real estate was 9.6 percent versus an average actual allocation of 7.6 percent. Lastly, as shown in the graph below at right, funds raising less than \$250 million have outperformed their larger counterparts for vintage years 2000 to 2011. In part, this outperformance is likely due to the niche strategies executed by some of these funds, as well as smaller deal sizes. With smaller deals, there is often less competition, which results in a higher percentage of exclusive transactions.

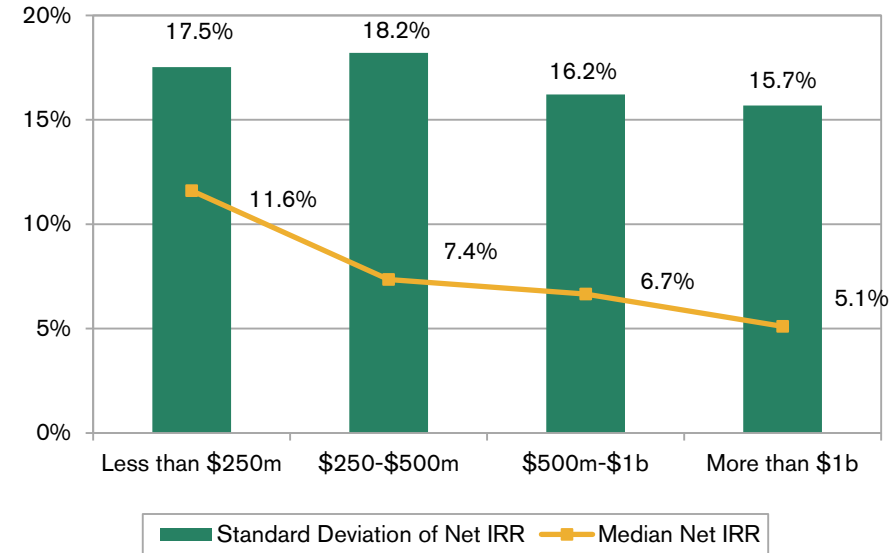
### Strategies Targeted in 2015 by Private Real Estate Investors



### Closed-End Private Real Estate Fund Since Inception Return by Vintage Year and Strategy



### Closed-End Private Real Estate Fund Risk and Return by Fund Size for Vintage Years 2000 to 2011



Source (this page): Prequin Real Estate Online

## Noteworthy Developments

Rogerscasey finds the developments discussed in this section to be noteworthy for investors.

### Percentage of Category Net Assets Invested in Passively Managed Open-End Funds and ETFs

Over the past decade, we have seen a significant increase in the use of passive management among investors in the U.S. equity market. We would attribute this phenomenon to the mixed results delivered by active managers and the increase in the popularity of exchange traded funds (ETFs), which are predominantly passively managed vehicles. The increase in passive management is most predominant in the large cap segment of the market, where historically alpha has been harder to generate, and least predominant in the small cap segment, where active managers have had a stronger track record.

### Percentage of Category Net Assets Invested in Passively Managed Open-End Funds and ETFs

	In 2003 (as of November 1)			In 2013 (as of November 30)			
Large	5%	41%	5%	Large	16%	64%	10%
Mid	3%	27%	1%	Mid	20%	57%	6%
Small	26%	31%	3%	Small	36%	49%	13%
	Value	Blend	Growth		Value	Blend	Growth

Source: Morningstar

### Components of 75-Year Actuarial Balance as of January 2014 (\$billions)

A. Non-interest income	\$50,969
B. Cost	\$64,299
C. Cost minus non-interest income	\$13,300
D. Trust fund asset reserves at start of period	\$2,764
E. Open group unfunded obligation (C minus D)	\$10,565
F. Ending target trust fund*	582
G. A minus B plus D minus F = -E minus F	-\$11,148
H. Taxable Payroll	\$386,884
Percent of taxable payroll – Actuarial balance (100 x G divided by H)	-2.88%

\*The calculation of the actuarial balance includes the cost of accumulating a target trust fund reserve equal to 100 percent of annual cost at the end of the period.

Note: Totals do not necessarily equal the sums of rounded components.

Source: Social Security Administration, 2014 Annual Social Security and Medicare Trust Fund Reports

### The Social Security Deficit

It is not new news that the U.S. Social Security program cannot sustain itself over the long-term under its current schedule of financing. According to the Social Security and Medicare Boards of Trustees' 2014 Annual Report, the cost of Social Security benefits will grow significantly faster than GDP growth through the middle of the 2030s, hitting a projected apex of 6.16 percent of GDP in 2035 (compared to 4.92 percent in 2014), due to baby boomer retirement. At the same time, the program will receive less tax money from those employed that are of "lower-birth-rate-generations."

Social Security includes two trust funds: Old Age and Survivors Insurance (OASI) and Disability Insurance (DI). Social Security's cost has exceeded non-interest income of OASI and DI combined since 2010, and the Annual Report estimates that the cost-to-non-interest-income disparity will continue on the same trajectory over a 75-year period. Trust fund assets will be redeemed as needed to offset the cash-flow deficit until the reserves are depleted around 2033. After the depletion of the funds, taxpayer income into the program would only cover approximately three-quarters of Social Security benefits over the 75-year period examined.

The report calculated an actuarial deficit, which is the average change in income or cost needed throughout the 75-year period in order to fulfill program obligations. The projected 75-year actuarial deficit for the combined trust funds is 2.88 percent of taxable payroll, or more than \$11 trillion, as shown in the adjacent table.



## Noteworthy Developments

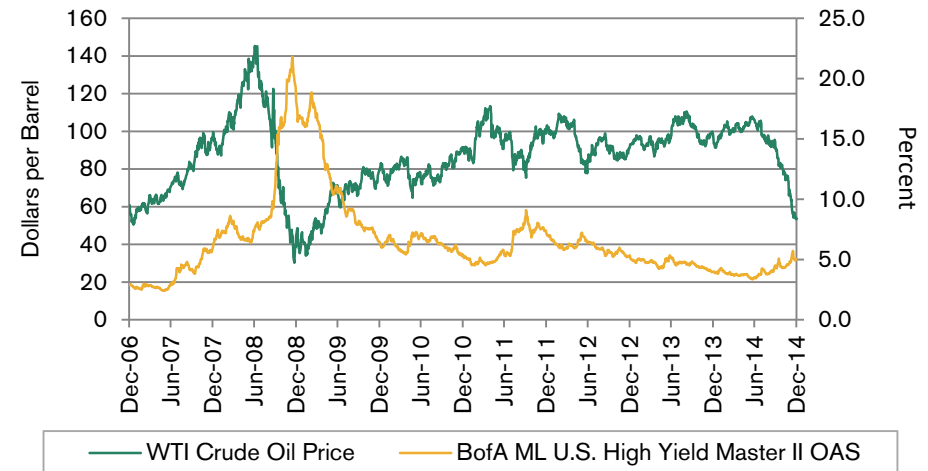
Rogerscasey finds the developments discussed in this section to be noteworthy for investors.

### Oil Prices and U.S. High Yield Bond Market

In recent years, investors have turned to high-yield bonds because interest rates on higher-quality fixed income investments have been relatively low. For instance, the 10-year Treasury note yielded 2.2 percent as of December 31, 2014, while the Bank of America Merrill Lynch U.S. High Yield Master II OAS ended the year at 5.0 percent. Expansion of U.S. oil production has increased energy's weight in that index. Many smaller oil-related companies opened shop in the late 2000s in response to high oil prices and borrowed at higher interest rates due to their uncharted credit history.

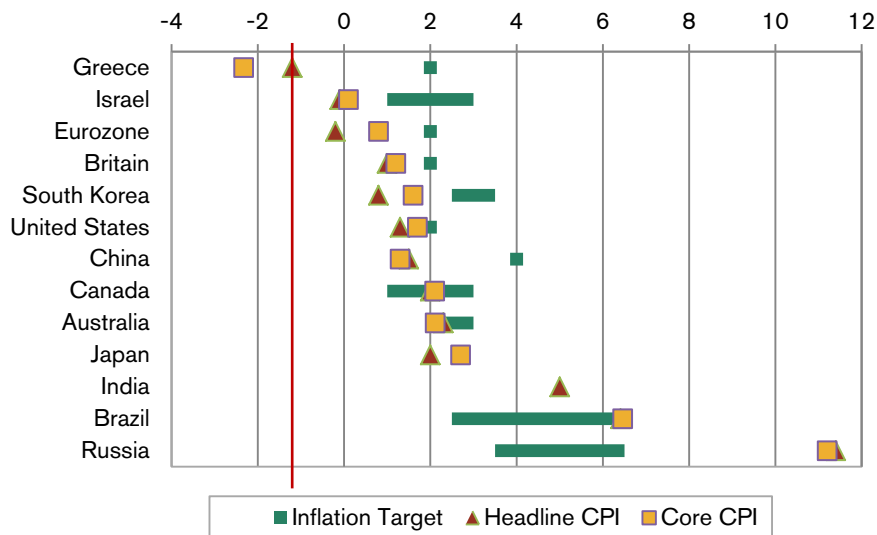
The recent fall in the West Texas Intermediate (WTI) crude oil price from a 2014 high of \$107.95 per barrel on June 20, 2014, to \$53.45 per barrel on December 31, 2014, the lowest price since May 2009, put pressure on the profitability of many of these companies. Thus, their loans became riskier because of the greater possibility of default. Investors started selling off their issues, causing the option-adjusted spread to widen by 168 bps from June 20 to December 31. While the oversized return potential on these riskier high yield bonds might sound like an attractive investment opportunity at present, investors should exercise caution in the near term. The floor for oil prices is unknown, and how long prices will stay low is uncertain.

### Crude Oil Price vs. High Yield Option-Adjusted Spread



Source: Federal Reserve Bank of St. Louis

### Inflation Picture in World Economies



### The Looming Threat of Deflation

The adjacent chart depicts one of the more pressing issues facing the global economy, which is the threat of widespread deflation and persistent low inflation. These can hinder economic growth and increase the real value of debt. This chart shows that inflation is falling short of target levels in several of the world's larger economies.

The Eurozone, plagued by lackluster growth and difficult policy decisions, dipped into deflation in December, as inflation fell to -0.20 percent on a year-over-year basis. While the problem is more profound in the periphery, even the relatively stronger Euro-countries, such as Germany, are experiencing deflationary pressure. Elsewhere, inflation in China is below 2 percent, a five-year low, compared with a 4 percent target, which suggests a continued slowdown in the Chinese economy. Conversely, Russia is facing escalating inflation due to the dramatic depreciation of the ruble.

While some deflation can be benign, or even have a positive impact if it results from enhanced productivity or a decline in oil prices, the current bout of deflation is largely the result of a global economic malaise, a notion reinforced by the presence of negative output gaps in many of these countries.